

DEPARTMENT OF THE ARMY

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

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Note 1. Summary of Significant Accounting Policies:

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of the Army, as required by the Chief Financial Officers (CFO) Act, and other appropriate legislation. They have been prepared from the books and records of the Army in accordance with DoD guidance on the form and content of financial statements as adopted from Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," and subsequent issues. Consequently, these statements are different from the periodic accounting reports, also prepared by the Army pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

The Army's financial statements are prepared from a consolidation of accounting information reported from multiple field level accounting systems as well as departmental level data input by the Defense Finance and Accounting Service (DFAS) - Indianapolis Center. This consolidated accounting data is maintained in the Headquarters Accounting and Reporting System (HQARS) departmental general ledger located at DFAS-IN.

General ledger account balances have been verified to the year-end departmental budget execution and expenditure reports. Department level budget execution reports are prepared from installation budget execution reports that are certified for accuracy and completeness by installation commanders. Other methods, to include feeder reports, must be used to verify the accuracy of general ledger balances in those instances where budget execution and expenditure reports don't contain the particular information - for example, "Government Furnished Property."

The requirements for Statements of Cash Flows and Budget and Actual Expenses have been waived by the Office of Management and Budget for Department of Defense agencies and, accordingly, are not included.

B. Reporting Entity:

The Army's primary mission is to train and equip forces for the conduct of prompt and sustained combat operations on land. Fiscal year 1996 represents the 6th year that the Department of the Army has prepared, and had audited, financial statements as required by the CFO Act and the Government Management Reform Act. The accompanying audited financial statements account for all funds for which the Army is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified.

The accounts used to prepare the principal statements are classified as entity/ non-entity and by type of fund. Entity accounts consist of resources that the agency has the authority to decide how to use, or where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations.

Designators with X, F, and R indicate availability for an indefinite period of time. Appropriations with a designator "*" are for a specific period of time.

Entity Accounts:

Revolving Funds

21X4528- Working Capital Fund, Army Conventional Ammunition

Trust Funds

21X8063- Bequest of MG Fred C. Ainsworth, Library, Walter Reed Army Medical Center

21X8927- General Gift Fund

General Funds

21*7020- Military Construction, Family Housing

21*7025- Operation & Maintenance, Family Housing

21*1705- National Board for the Promotion of Rifle Practice, Army

21X1805- Cemeterial Expenses, Army

21*2010- Military Personnel, Army

21*2020- Operations & Maintenance, Army

21*2031- Aircraft Procurement, Army

21*2032- Missile Procurement, Army

21*2033- Procurement of Weapons and Tracked Combat Vehicles, Army

21*2034- Procurement of Ammunition, Army

21*2035- Other Procurement, Army

21*2040- Research, Development, Test & Evaluation, Army

21*2050- Military Construction, Army

21*2060- National Guard Personnel, Army

21*2065- Operations & Maintenance, Army National Guard

21*2070- Reserve Personnel, Army

21*2080- Operation & Maintenance, Army Reserve

21*2085- Military Construction, Army National Guard

21*2086- Military Construction, Army Reserve

Note 1B Continued**Special Funds**

21X5095- Wildlife Conservation, etc., Military Reservations, Army

21X5098- Restoration, Rocky Mountain Arsenal

21X5194- DoD 50th Anniversary of World War II Commemoration Account

21X5285- Forest and Wildlife Conservation, Military Reservations

21X5286- National Science Center, Army

Non-Entity Accounts:**Deposit Funds**

21X6001- Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property-Army

21X6002- Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Army

21X6010- Army Member Savings Deposit-Desert Shield/Desert Storm Savings Program

21X6031- Effects of Mentally Incompetent Soldiers - United States Army

21X6050- Employees' Payroll Allotment Account, United States Savings Bonds

21*6060- Estates of Deceased Soldiers, Regular Army

21X6075- Withheld Allotment of Compensation for Payment of Employees Organization Dues

21X6083- Withheld Allotment of Compensation for Charitable Contributions

21X6105- Withheld Employee Contributions, State or Territorial Retirement

21X6108- Employer Contributions, State or Territorial Retirement

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21X6112- Withheld Employee Contributions, State or Territorial Disability Benefits

21X6113- Withheld Employee Contributions, State or Territorial Death Benefits

21X6129- Foreign Taxes Withheld

21X6131- Employee and Employer Contributions, Private Insurance Plans, Dept of the Army

21X6134- Amounts Withheld for Civilian Pay Allotments

21X6208- Amounts Withheld for Group Life Insurance, National Guard Members

21X6275- Withheld Income Taxes (State, County, City)

21X6434- Servicemen's Group Life Insurance Funds, Suspense, Dept of the Army

21*6763- Gains and Deficiencies on Exchange Transactions-Army

21X6875- Budget Clearing Account (Misc.)

21X6999- Accounts Payable, Check Issue Underdrafts

Special Funds (Receipt Accounts)

21R0891- Miscellaneous Fees for Regulatory and Judicial Services not Otherwise Classified

21R1020- Fines, Penalties, and Forfeitures, Economic Stabilization Laws

Note 1B Continued

21R1030- Fines, Penalties, and Forfeitures, Immigration and Labor Laws
21R1060- Forfeitures of Unclaimed Money and Property
21R1099- Miscellaneous Fines, Penalties and Forfeitures
21R1125- Recoveries Under Military Occupation
21R1210- Contributions to Conscience Fund
21R1292- Residue of Funds of Quasi-Governmental Organizations
21R1299- Gifts--To the United States not otherwise classified
21R2462- Deposits for Survivor Annuity Benefits
21R3019- Recoveries for Government Property Lost or Damaged, Not Otherwise Classified
21R3041- Recoveries Under Foreign Aid Programs -- Foreign Military Sales
21R3102- Recoveries From Federal Agencies Resulting for Reductions in Civilian Salaries of Military Retirees
21R3200- Collections of Receivables from Canceled Accounts
21R3210- General Fund Miscellaneous Income and Recoveries not Otherwise Classified
21R3220- General Fund Proprietorship Receipts
21R5095- Sale of Hunting and Fishing Permits, Military Reservations
21R5098- Restoration, Rocky Mountain Arsenal, Army-Reimbursements from Private Industry
21R5286- National Science Center - Facilities
21R5194- Royalties for Use of DoD-Military Insignia and Trademarks
21R8063- Bequest of MG Fred Ainsworth to Walter Reed Army Medical Center
21R8927- Trust Fund Receipt Accounts for Department of the Army General Gift Fund

Special Funds

21F0109- Federal Tax withheld from payments to nonresident aliens
21F3845- Proceeds of Sales, Personal Property
21F3875- Budget Clearing Account (Misc.)
21F3878- Budget Clearing Account (Chargebacks)
21F3879- Undistributed & Letter of Credit Differences (Suspense)
21F3880- Unavailable Check Cancellations
21F3885- Undistributed Intra-government Payments
21F3886- Federal Employee Retirement System (FERS) - Thrift Savings Plan Account

C. Budgets and Budgetary Accounting:

The Assistant Secretary of the Army (Financial Management and Comptroller) is responsible for directing the Army's budget and monitoring its execution against funds appropriated by Congress. Funds are distributed by appropriation directors through major commands to installations responsible for accomplishing the diverse missions for which the Army is responsible. As missions are performed, installations report obligations and disbursements against the applicable appropriations.

The Army's appropriations are divided into the general, revolving, trust, special and deposit funds. These accounts are used to fund and report how the resources have been used in the course of executing the Army's missions.

General funds contain the bulk of Congressional appropriations, including personnel, operations, research and development, investment, and construction accounts.

The Conventional Ammunition Working Capital Fund, **arevolving fund** accounts for the procurement, production, storage, distribution, maintenance, and demilitarization of conventional ammunition for all services.

Trust funds are used to record the receipt of funds held in trust for the government. **Special funds** are comprised of receipt and expenditure accounts that can only be used in accordance with specific provisions of law. **Deposit funds** generally are used to hold assets that are awaiting legal determination or for which the Army acts as agent or custodian. These accounts may also be used for unidentified remittances.

D. Basis of Accounting:

Transactions are generally recorded on an accrual basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability has been incurred, without regard to the actual receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts which facilitate Army's compliance in meeting both legal and internal control requirements associated with the use of federal funds. All known intrafund balances have been eliminated.

E. Revenues and Other Financing Sources:

The Army receives the majority of funding required to support its programs and missions through Congressional appropriations. A financing source, "Appropriated Capital Used," is recognized each fiscal year to the extent that appropriated funds have been consumed. Purchases of capital items and accruals of unfunded liabilities are excluded from the "Appropriated Capital Used" account.

Appropriations are, when authorized, supplemented by revenues generated by sales of goods or services through a reimbursable order process. Revenue is recognized to the extent the revenue is payable to the Army from other federal agencies and the public as a result of costs incurred or services performed on their behalf. Revenue is recognized when earned under the reimbursable process. The Conventional Ammunition Working Capital Fund recognizes revenues at the point of delivery.

Other revenues and financing sources include donated revenue and inventory and other gains. Donations to the Army are recognized as a financial source upon acceptance of the donated asset. Revenue is recorded for the value of the increase to the asset account. Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is required. Therefore, for the Army's general funds, an amount due from future financing sources (appropriations to be provided) is recognized as an offset to equity in the consolidated statement of financial position.

F. Accounting for Intragovernmental Activities:

The Army, as an agency of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. However, it should be noted that these financial statements do not reflect the results of all financial decisions applicable to the Department as though the agency were a stand alone entity.

The Army's proportionate share of public debt and related expenses of the federal government are not included in these financial statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies.

The Army's financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing (e.g. debt issuance, tax revenues). The related interest costs incurred in the construction of Army facilities are also not capitalized since Treasury does not allocate interest costs to the benefiting agencies.

The Army's permanent civilian employees and military personnel are covered under the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS) and the Military Pay Retirement System (MRS) plans.

CSRS - Army makes matching contributions equal to 7 percent of civilian pay.

FERS - Army contributes to FERS, Social Security (SS) and Thrift Savings Plan for civilian employees hired after December 31, 1983, or CSRS employees that elected to be covered under FERS.

MRS - Army contributes to the Military Pay Retirement Fund for Active Component and Reserve/National Guard members.

The Army also contributes to the FERS Thrift Savings Plan on behalf of its participating employees. The following contributions listed below were made to the retirement plans and FERS Thrift Savings Plan (TSP).

	Retirement Contributions (Thousands)	
	FY 96	FY 95
CSRS	\$278,700.0	\$295,718.0
FERS	370,300.0	351,539.7
MRS	4,049,600.0	4,430,300.0
SS	338,600.0	326,496.0
Total	<u>\$5,037,200.0</u>	<u>\$5,404,053.7</u>
TSP	<u>\$120,600.0</u>	<u>\$110,322.0</u>

The Army funds a portion of the pension benefits under these retirement plans. No amounts are reported as assets or liabilities in the financial statements because the funds are maintained and reported by the Office of Personnel Management for CSRS and FERS; and DoD for MRS. Overseas commands obligate mission funds to pay separation and severance pay for Foreign Nationals in accordance with the Status of Forces Agreements.

G. Funds with the U.S. Treasury and Cash:

The Army's funding resources are maintained in Treasury receipt and expenditure accounts. The account balance with Treasury represents the aggregate of all Army appropriations. The Army is an agent for the Department of the Treasury for cash on hand.

Fund Balance With Treasury is adjusted for the amount of undistributed disbursements and collections reported in the departmental expenditure system. A corresponding adjustment is also

processed to both accounts payable and accounts receivable respectively. These adjustments represent Army's in-float (undistributed) disbursements/collections for transactions that have been reported by a disbursing station but not recorded by the appropriate accountable station. See Note 2, "Fund Balance with Treasury."

Cash in the accounts of Army officials was reported in the financial statements as "Cash and Other Monetary Assets." Other cash reported included imprest fund and undeposited collections. Army disbursing officers also maintain small on hand balances of foreign currencies when acting as an agent for the Treasury Department in overseas locations. These foreign currency balances are reported at the U.S. Dollar equivalent using the exchange rate in effect on the last day of the reporting period. See Note 3, "Cash, Foreign Currency, and Other Monetary Assets."

H. Foreign Currency:

The Department conducts a significant portion of its operations overseas. Gains and losses from foreign currency fluctuations are computed as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of the fiscal year.

I. Accounts Receivable, Net:

As presented in the Statement of Financial Position, accounts receivable includes accounts, claims, and refunds receivable from other entities. Allowances for uncollectible accounts are based on an analysis of collection experience by fund type. Accounts receivable are adjusted for the amount of undistributed collections reported in the departmental expenditure system. A corresponding adjustment is also processed to Fund Balance With Treasury. These transactions represent the Army's in-float (undistributed) collections for transactions that were reported by a disbursing station but not recorded by the appropriate accountable station. See Note 5, "Accounts Receivable, Net."

J. Loans Receivable: Not applicable

K. Inventory, Net:

Currently, inventory is not recorded in the financial statements at the approximate historical cost in accordance with Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and Related Property." Instead, inventory is valued at a standard price (sale price) which includes the purchase price plus cost recovery factors (commonly called surcharges) necessary to recover operating costs and anticipated inflation rate changes. Gains or losses that result from valuation changes for inventory are not recognized and reported in the Statement of Operations. Such gains or losses are, however, reflected in the inventory asset valuation and related invested capital account in the Statement of Financial Position. See Note 8, "Inventory, Net."

L. Investments in U.S. Government Securities:

Investments in U.S. Government securities are reported at cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. The reporting entity's intent is to hold investments to maturity. Consequently, no provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. See Note 4, "Investments, Net."

M. Property, Plant and Equipment, Net:

Property, Plant and Equipment (PP&E) represents the majority of total assets recorded on the Statement of Financial Position. Property accountability systems maintain the subsidiary records that support the general ledger balances as recorded in the financial accounting systems. Property book officers generally report PP&E end of period balances to the supporting accounting offices on a quarterly basis.

Current DoD financial capitalization policy requires that assets previously capitalized at lower thresholds - \$5,000 prior to FY 91; \$15,000 from FY 91 - FY 93; \$25,000 in 1994; \$50,000 in 1995- remain in the PP&E accounts subsequent to the raising of capitalization thresholds. Most of the Army's property accountability systems can't comply with financial capitalization reporting requirements. Consequently, these systems are generally using the current \$100,000 capitalization threshold criteria for items having an estimated useful life of two or more years, regardless of when acquired.

Real property comprising land, buildings, and other facilities is valued using historical costs. The asset capitalization threshold was generally applied to the total costs (acquisition and capital improvements) of each facility supported by the Army's primary real property accountability system, the Integrated Facilities System. The other real property system generally reported asset costs in excess of \$25,000. Personal property (military equipment) is generally valued using latest acquisition costs or standard prices. Natural resources consist of the estimated market value of standing timber reserves.

New buildings are capitalized upon acceptance by the installation. Gains or losses from transfer of assets or liabilities between agencies are not recognized, except when assets are transferred to the Base Realignment and Closure Account. This account is not allowed to accumulate gains or losses on disposal. Any gain or loss must be transferred back to the original/losing command.

Government furnished material and property (GFM/GFP) are reported quarterly in the departmental general ledger. Contractors are required to maintain accountable records for GFM/GFP. The contractor data is used to supplement the general ledger balances. Land and buildings also include amounts for real property in the hands of contractors. See Note 15, "Property, Plant and Equipment."

No gains or losses were recognized in the Statement of Operations for revaluation changes and/or the loss of equipment. However, the assets and related investment accounts do reflect both pricing and value changes based on a periodic update to the general ledger. Depreciation is not recorded for assets financed by general fund appropriations. Routine maintenance and repair costs are expensed when incurred.

Construction-in-progress (CIP) is updated based on costs incurred. In accordance with guidance from DoD Comptroller, CIP includes \$4.3 billion of work-in-process inventory and progress payments made to others for procurement and RDT&E construction in progress funded efforts which are not complete.

N. Prepaid and Deferred Charges:

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and reported as an asset on the Statement of Financial Position. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

O. Leases:

As of September 30, 1996, the Army was committed to numerous operating leases and rental agreements. Generally, these leases and agreements were for the rental of equipment, space, rights of way, and operating facilities. The Army owns substantially all of the facilities and real property used in its domestic operations. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country.

Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. These "capital leases" do not fit the criteria of a typical capital lease due to the nature of the agreements with foreign governments and the fact that the assets have already been funded and disbursements have already been made out of appropriated funds. Consequently, no capital lease liability is required for financial statement recognition.

P. Contingencies:

Most legal actions, other than contract claims, to which the department may be a named party are covered by the provisions of the federal tort claims act and the provisions of Title 10, United States Code, Chapter 163, governing military claims. Either because payments under these statutes are limited to amounts well below the threshold of materiality for claims payable from the Department's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect the Army's operations or financial position.

Q. Accrued Leave:

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources

R. Equity:

Equity consists of invested capital, cumulative results of operation, and unexpended appropriations less unfunded liabilities. Invested capital, as presented in the Statement of Financial Position, represents the value of the Army's capital assets reported at average or actual cost. The portion of invested capital attributable to land and buildings represents their undepreciated cost. Increases to invested capital are recorded when capital assets are acquired or constructed or when asset valuations increase as a result of increases in average costs. Decreases occur as capital assets are consumed in operations, or when average costs are decreased.

Cumulative results of operation represents the excess of revenues over expenses since fund inception, less refunds and returns to the U.S. Treasury for all funds other than the General fund. The excess of revenues over expenses for the General fund is reported in "Invested Capital." Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which neither legal liabilities for payments have been incurred nor actual payments made.

S. Aircraft/Ship Crashes: Not applicable to Army**T. Treaties for Use of Foreign Bases:**

The Army has the use of land, buildings, and other facilities which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the Army continued use of these properties until the treaties expire. These assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Army. In the event treaties or other agreements are terminated and use of foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the United States and the host country have been concluded, to determine the amount due the United States for such capital investments. Operating expenses for overseas bases are included in the Statement of Operations.

U. Comparative Data:

Army's financial statements will continue to reflect restatements and reclassifications due to the evolving nature of federal accounting standards and the development of new reporting financial systems. Restatement of lines 1.d. and 1.g. result from new DoD guidance relating to the reclassification of stockpile materials from the "Stockpile Materials, Net" line to the "Inventory, Net" line. Restatement of lines 4.b. through 5.b. result from audit recommendations relating to the recognition of accrued actuarial liabilities and other liabilities not covered by budgetary resources that were previously not recognized in FY 95. The restatement shown for lines 7.b. and 7.c. was the result of a change in DoD accounting policy/procedures requiring removal of the effects of activity in general

fund appropriations from the "Cumulative Results of Operations" (CRO) line. Operating results relating to General Fund activity previously reported in CRO was reclassified as "Invested Capital." The remaining balances in CRO now represent only the cumulative operating results of the Trust, Revolving Fund, and Special fund accounts.

Statement of Financial Position (Thousands)

<u>FY 95 Line</u>	<u>FY 95 Balance</u>	<u>Change</u>	<u>FY 95 Restated</u>
1.d.	\$1,896,011	\$31,264,747	\$33,160,758
1.g.	31,264,747	(31,264,747)	0
4.b.(2.a.)	1,117,479	177,884	1,295,363
4.b.(2.c.)	508,223	(177,885)	330,338
5.a.(1)	351,862	(351,862)	0
5.a.(3)	0	783,062	783,062
5.b.(4.)	0	1,352,475	1,352,475
5.b.(5.)	1,910,432	825,682	2,736,114
7.b	190,559,173	(6,999,850)	183,559,323
7.c	(2,421,833)	6,999,850	4,578,017

V. Undelivered Orders:

The Army was obligated to pay for undelivered orders (goods and services that have been ordered but not yet received) amounting to \$27.9 billion at fiscal year-end. No liability for payment has been established in the financial statements because goods/services have yet to be delivered. Unexpended appropriations in the financial statements were reduced by \$5 billion for unfilled orders where Army has not performed or earned the reimbursement.

W. Accounts Payable:

Accounts payable and operating expenses are understated by the accrual amount that should be recorded for contractor services/goods that have been performed/delivered but not yet paid. Since current contractor payment systems were not designed to provide this accrual data for entry to the accounting systems, a reasonable accrual estimate has not been determined. Existing systems/processes are being modified to provide this accrual data for future inclusion to Army's financial statements.

Note 2. Fund Balances with Treasury:

This account balance represents the aggregate of all Army appropriations. The schedule below identifies, by fund type, the status of the resources maintained in the Treasury accounts. Amounts that have been restricted by Congress, OMB, Treasury or DoD have been separately identified. Special, Deposit, and Receipt account balances have been consolidated into "Other Fund Types."

(Thousands)	Entity Assets				Total
	Trust Funds	Revolv- ing Funds	Appro- priated Funds	Other Fund Types	
Unobligated Balance Available:					
Available	\$403	\$63,613	\$3,101,174	\$89,702	\$3,254,892
Restricted	0	0	1,437,812	0	1,437,812
Reserve For Anticipated Resources	0	0	0	0	0
Obligated (but not expensed)	77	0	26,767,296	6,073	26,773,446
Unfunded Contract Authority	0	0	(122,999)	0	(122,999)
Unused Borrowing Authority	0	0	0	0	0
Treasury Balance (FY 96)	<u>\$480</u>	<u>\$63,613</u>	<u>\$31,183,283</u>	<u>\$95,775</u>	<u>\$31,343,151</u>
Treasury Balance (FY 95)	<u>\$548</u>	<u>\$159,678</u>	<u>\$29,415,831</u>	<u>\$84,888</u>	<u>\$29,660,945</u>
Non-Entity Assets					
Beginning Balance	\$0	\$0	\$0	\$354,656	\$354,656
Funds Collected	0	0	0	(3,843,690)	(3,843,690)
Funds Disbursed	0	0	0	3,354,697	3,354,697
Ending Balance (FY 96)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$134,337)</u>	<u>(\$134,337)</u>
Ending Balance (FY 95)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$354,656</u>	<u>\$354,656</u>

Other Information Abnormal balance in the non-entity assets "Fund Balance with Treasury" is the result of unsupported disbursements and collections made by other agencies against Army appropriations. These unsupported transactions were placed in a suspense account pending identification of the correct appropriation.

Note 3. Cash, Foreign Currency, and Other Monetary Assets:

(Thousands)

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>
A. Cash	\$6,188	\$143,252
B. Foreign Currency	13,614	
C. Other Monetary Assets		
Total Cash, Foreign Currency and Other Monetary Assets (FY 96)	<u>\$19,802</u>	<u>\$143,252</u>
Total FY 95	<u>\$270,250</u>	<u>\$0</u>

During FY 96, DoD changed guidance relating to the classification of Disbursing Officer's Cash. Disbursing Officer's Cash (with the exception of Imprest Funds that cite an entity appropriation) will now be shown as a Non-Entity asset. Cash balances have been showing decreases from prior years due to the implementation of cash management initiatives. Use of government charge cards for travel related expenses and payments to local vendors account for a large portion of the reduction to cash holding requirements.

Note 4. Investments:

The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army and the receipt of interest arising from investment of such donations. The related earnings are allocated to appropriate Army activities to be used in accordance with the directions of the donor. At September 30, 1996, the Army reported \$1 million of investments.

Note 5. Accounts Receivable, Net:

Accounts Receivable include all receivables due from federal and non-federal sources, net of allowance for estimated uncollectible accounts. The allowance for uncollectible accounts was based on an analysis of collection experience by fund type for current and noncurrent receivables. During FY 96 the Army wrote off \$23.2 Million in uncollectible receivables, including principal and interest.

	Gross Amount Due	Allowance For Estimated Uncollectibles	Net Due
A. Entity Receivables:			
Intragovernmental	\$953,735	\$0	\$953,735
Governmental	359,775	99,531	260,244
B. Non-Entity Receivables:			
Intragovernmental	\$0	\$0	\$0
Governmental	60,091	53,613	6,478
FY 96 Total	<u>\$1,373,601</u>	<u>\$153,144</u>	<u>\$1,220,457</u>
FY 95 Total	<u>\$1,304,671</u>	<u>\$140,248</u>	<u>\$1,164,423</u>

C. Other Information: Accounts receivable include reimbursements receivable and refunds receivable such as out-of-service debts from former service members, contractor debt and unused travel tickets. Reported bad debt expense is the sum of bad debt write-offs and the current year change in the allowance for doubtful accounts.

Note 6. Other Federal (Intragovernmental) and Non-Federal (Governmental) Assets: Army has no activity in this asset category.

Note 7. Loans and Loan Guarantees, Non-Federal Borrowers: Not applicable to Army's Financial Statements.

Note 8. Inventory, Net:

Inventory held for current sales is contained in the revolving fund, Conventional Ammunition Working Capital Fund (CAWCF). While no allowance account is maintained, "Inventory, Net" does reflect a FY 1996, CAWCF inventory adjustment. CAWCF was adjusted for unserviceable, condemned and obsolete inventory. The adjustments were based on "purpose codes" that identify the condition of the asset. One of the primary reasons for the adjustment - demilitarization- accounted for \$78 Million.

70 Footnotes

The components of the Army's inventory are shown in the table below.

(Thousands)	Inventory <u>Amount</u>	Allowance <u>For Losses</u>	Inventory, <u>Net</u>
A. Inventory Categories:			
(1) Held for Current Sale	\$1,899,923	\$0	\$1,899,923
(2) Held in Reserve for Future Sale		0	
(3) War Reserve Material	35,769,856		35,769,856
(4) Excess, Obsolete and Unserviceable	0	0	0
(5) Held for Repair	0	0	0
Total FY 96	<u>\$37,669,779</u>	<u>\$0</u>	<u>\$37,669,779</u>
Total FY 95	<u>\$1,896,011</u>	<u>\$0</u>	<u>\$1,896,011</u>

The increase in this account resulted from implementation of DoD guidance which requires "war reserves" to be included in the inventory accounts. This category includes ammunition and missiles that were recorded as stockpile materials in prior CFO financial statements and are not considered to be held for sale during the current period. Additionally, secondary and principal items purchased with procurement dollars are also included. These procurement funded items were previously recorded as "Property, Plant and Equipment."

Note 9. Work in Process: DoD guidance does not provide for work in process for General Fund statements.

Note 10. Operating Materials and Supplies (OM&S), Net: Does not apply to Army General Fund financial statements.

Note 11. Stockpile Materials, Net: Reserved for National Defense Stockpile Transaction Fund. Financial data reported on this line in previous CFO reports has been reclassified as "Inventory, Net." See Note 8.

Note 12. Seized Property: Not applicable to Army General Fund financial statements.

Note 13. Forfeited Property, Net: Not applicable to Army General Fund financial statements.

Note 14. Goods Held Under Price Support and Stabilization Programs, Net: Not applicable to Army General Fund financial statements.

Note 15. Property, Plant and Equipment:

(Thousands)	Acquisition Value	Accumulated Depreciation	Net Book Value (FY 96)	Net Book Value (FY 95)
Classes of Fixed Assets				
A. Land	\$397,290		\$397,290	\$478,196
B. Structures, Facilities, & Leasehold Improvements	27,056,555		27,056,555	26,058,662
C. Military Equipment	80,893,158		80,893,158	112,172,317
D. ADP Software	16,782		16,782	14,967
E. Equipment	0		0	0
F. Assets Under Capital Lease	5,002,027		5,002,027	5,581,252
G. Other	135,018		135,018	135,020
H. Natural Resources	1,737,133		1,737,133	2,468,516
I. Construction-in-Progress	9,629,711		9,629,711	9,034,317
Total	<u>\$124,867,674</u>	<u>N/A</u>	<u>\$124,867,674</u>	<u>\$155,943,247</u>

Depreciation is not recorded for assets financed by general fund appropriations. Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. The value reported in Capital Leases is understated by approximately \$1 Billion due to reporting entities within Europe failing to complete reporting requirements for this asset category. These "capital leases" do not fit the criteria of a typical capital lease due to the nature of the agreements with foreign governments. Consequently, no capital lease liability has been established.

Application of the new capitalization threshold criteria of \$100 Thousand accounts for the majority of the reduction of "Military Equipment" values as compared to those reported in FY 95. Values reported in FY 95 were based on application of a \$50 Thousand capitalization threshold criteria. A portion of the reduction is attributed to an understatement of "Military Equipment" by approximately \$11.3 Billion. The understatement occurred when incorrect prices were used to value specific equipment items managed by the Commodity Commands. The recommended audit adjustment was not fully resolved in time to be included in these financial statements. The reduction of "Natural Resources" is based on revised estimates of the number of "board feet" of lumber existing in the Army's timber reserves.

Real property (land, buildings, and other facilities) is overstated by an amount believed to be immaterial in relation to the total values reported in "Property, Plant and Equipment." Overstatements exist due to inclusion of reported real property assets belonging to non-Army tenant activities. Modifications to the current reporting process are being developed to exclude non-Army balances from the financial statements.

Government furnished material and property (GFM/GFP) are reported quarterly in the departmental general ledger. Contractors are also required to maintain accountable records for GFM/GFP. The contractor data is used to supplement the general ledger balances. Balances reported in this asset category include items related to the Defense Business Operations Fund (DBOF). A practical method for breaking out DBOF and non-DBOF GFM/GFP balances has not been

developed. However, DBOF amounts included in the GFM/GFP values are believed to be immaterial to the balances reported in the financial statement line "Property, Plant and Equipment."

Note 16. Debt: Not applicable

The Army's proportionate share of public debt and related expenses of the federal government are not included in the financial statements. Debt incurred by the federal government and the related interest are not apportioned to federal agencies. The Army's financial statements do not reflect any portion of the public debt or interest thereon, nor do the statements reflect the source of public financing (e.g. debt issuance, tax revenues). The related interest costs incurred in the construction of Army facilities are also not capitalized since Treasury does not allocate interest costs to the benefiting agencies.

Note 17. Other Liabilities:

The schedule below shows those liabilities that will be liquidated with funds that have already been received (Covered by Budgetary Resources) as well as those liabilities that will have to be funded with future appropriations (Not Covered by Budgetary Resources). Additionally, components making up the balances in "Other Liabilities" are further segregated by source and include "Other Federal" (Intragovernmental) and "Non-Federal" (Governmental).

A.

(Thousands)	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
1. Intragovernmental			
(a) Unearned Revenue, Advances from Gov't Agencies	\$0	\$695,383	\$695,383
(b) Treasury Cash Advances to Disbursing Officers	0	164,273	164,273
(c) Deposit Fund Liabilities	<u>0</u>	<u>(134,337)</u>	<u>(134,337)</u>
Total FY 96	<u>\$0</u>	<u>\$725,319</u>	<u>\$725,319</u>
		Total FY 95	<u>\$1,421,524</u>
2. Governmental			
(a) Unearned Revenue, Advances from Public	\$0	\$206,328	\$206,328
(b) Deferred Credits	<u>0</u>	<u>12,537</u>	<u>12,537</u>
Total	<u>\$0</u>	<u>\$218,865</u>	<u>\$218,865</u>
		Total FY 95	<u>\$190,720</u>

B. Other Information Abnormal balance in the deposit fund liabilities is the result of unsupported disbursements and collections made by other agencies against Army appropriations. These unsupported transactions were placed in a suspense account pending identification of the correct appropriation.

Note 17. Other Liabilities (Con't):

(Thousands)	Non-Current <u>Liability</u>	Current <u>Liability</u>	<u>Total</u>
C. Other Liabilities Not Covered by Budgetary Resources:			
1. Intragovernmental			
(a) Other	\$0	\$769,119	\$769,119
Total FY 96	<u>\$0</u>	<u>769,119</u>	<u>769,119</u>
		Total FY 95	<u>\$783,062</u>
2. Governmental			
(a) Cancelled Budget Authority	\$0	\$22,437	\$22,437
(b) Accrued Annual Leave, Mil. Unfunded	0	834,861	834,861
(c) Accrued Annual Leave, Civilian, Unfunded	0	651,379	651,379
(d) Other	<u>14,630,199</u>	<u>0</u>	<u>14,630,199</u>
Total FY 96	<u>\$14,630,199</u>	<u>\$1,508,677</u>	<u>\$16,138,876</u>
		Total FY 95	<u>\$2,736,114</u>

D. Other Information: FY 96 marks the first year that liabilities pertaining to environmental cleanup, DoD restructuring/downsizing, radioactive waste cleanup, and actuarially determined personnel benefits have been recognized in the financial statements. Values reported for "Other Federal (Intragovernmental) Liabilities result from recognizing liabilities relating to payments Army will have to make to the Voluntary Separation Incentive Trust Fund for future payments to early takers and for payments owed to the Department of Labor for Worker's Compensation payments made on behalf of Army. Additionally, since this was the first year for recognizing these specific types of liabilities, restatements have been made to the FY 95 financial statements as reflected in Note 1.(U.).

The following schedule with narrative provides a breakout showing the various liabilities that account for the majority of recorded "Other Non-Federal (Governmental) Liabilities" not covered by budgetary resources:

(Thousands)

Downsizing -National Guard	177,800
Environmental Restoration	7,945,000
Environmental Restoration - Formerly Used Defense Sites (FUDS)	5,300,000
Environmental Compliance	157,190
Low Level Radioactive Waste Cleanup	283,316
Overseas Restructure/Downsizing -Panama	430,800
Overseas Restructuring/Downsizing Europe	146,400
Workman's Compensation	1,313,935

- **Environmental Compliance/Restoration** -Liabilities for the Army's Environmental Program are primarily comprised of estimates to clean up contamination at Army installations. Other liabilities result from program requirements relating to the Endangered Species Act, Clean Water Act, Resource Conservation & Recovery Act, and the Sikes Act. For FY 96, Army has recorded approximately \$13.4 Billion dollars in this category.

- **Rightsizing/Restructuring** -Liabilities can be recognized or disclosed as a result of rightsizing the military and civilian workforce. These liabilities primarily relate to Congressionally authorized programs designed to provide transition benefits and incentives for military and civilians leaving the workforce. Liabilities can also be recognized or disclosed as a result of anticipated costs relating to the movement of troops, material and equipment in connection with consolidation of missions and the turnover of facilities. During FY 96, Army recorded liabilities approximating \$755 Million for this category.

- **Radio-active Waste** -Liabilities are recognized or disclosed as a result of having to correct the results of improper handling and disposal of low level radioactive waste. During FY 96, Army has recorded liabilities in the financial statements amounting to approximately \$283 Million for this category.

- **Workman's Compensation** Legal actions brought by employees of the Army for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the Department of Labor (DOL). The amount of unfunded FECA liability accrued as of September 30, 1996 was \$1.3 billion. See Note 19.

Note 18. Leases:

As of September 30, 1996, the Army was committed to numerous operating leases and rental agreements. Generally, these leases and agreements were for the rental of equipment, space, rights of way, and operating facilities. Real property assets at overseas locations are classified as Capital Leases in accordance with DoD accounting policy. The policy requires that real property assets recorded under foreign government agreements permitting DoD occupancy of facilities - which require maintenance to be provided by DoD - be recorded as a capital lease. These assets will revert to foreign ownership once the treaties expire.

Note 19. Pensions and Other Actuarial Liabilities:

Legal actions brought by employees of the Army for on-the-job injuries fall under the Federal Employees Compensation Act (FECA) administered by the Department of Labor (DOL). DOL bills Army annually as DOL claims are paid. However, payment on these bills is deferred two years to allow for funding through the budget process. Using actuarial estimates provided by DOL, Army has recorded FECA liabilities for balances billed to Army by DOL, and for estimates of the present value, using a 7.00 percent discount rate, of the long-term payments related to cases on hand at the end of

the fiscal year. The amount of unfunded FECA liability accrued as of September 30, 1996 was \$1.3 billion. A corresponding amount has been established as a future funding requirement.

Note 20. Net Position:

Net Position is comprised of the following components

Unexpended appropriations - amount of budget authority remaining for disbursement against current or future obligations. Unobligated balances are classified as available or unavailable. Certain unobligated balances are restricted for future use and are not available for current use. "Undelivered Orders" represent those goods and services that have not yet been received/performed. Multi-year appropriations remain available to the Army for obligation in future periods. However, unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed. Generally speaking, accounts close five years after the appropriation expires.

Invested capital - represents the net investment of the Government in the Army. Includes the initial investment and subsequent appropriations to finance program activities and the net balance of assets and liabilities that have been transferred in and out from/to DoD Components or other U.S. Government Agencies without reimbursement. Also, for General fund appropriations, includes the cumulative net difference between (1) expenses and losses and (2) financing sources to include appropriations, revenues and gains.

Cumulative results of operations represents the cumulative net difference between (1) expenses and losses and (2) financing sources (includes appropriations, revenues and gains) of the Trust, Revolving, and Special Funds.

Other - represents other components of net position not specifically identified above. In prior years, Army financial statements showed balances in this account relating to miscellaneous receipts. Guidance from the Department of the Treasury requires the miscellaneous receipt balances to be excluded from Army's "Net Position" since the receipts are considered withdrawn by Treasury immediately upon collection.

Future Funding Requirements Accrued expenses such as annual and military leave earned but not taken are not funded in the period the expense is recorded. These future funding requirements are recognized as an offset to "Net Position."

Net position is presented in the following table by fund type. "Other" fund types have been included in the "Appropriated Funds" column

(Thousands)

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appro- priated Funds</u>	<u>Total</u>
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	\$0	\$403	\$3,190,876	\$3,191,279
b. Unavailable	0	0	1,314,813	1,314,813
(2) Undelivered Orders	0	18	22,955,745	22,955,763
B. Invested Capital	28,188	1,068	168,131,500	168,160,756
C. Cumulative Results of Operations	319,588		(1,987,259)	(1,667,671)
D. Other	0	0	0	0
E. Future Funding Requirements	<u>(0)</u>	<u>(0)</u>	<u>(18,221,930)</u>	<u>(18,221,930)</u>
Total FY 96	<u>\$347,776</u>	<u>\$1,489</u>	<u>\$175,383,745</u>	<u>\$175,733,010</u>
			Total FY 95	<u>\$211,231,585</u>

A breakout of line (E) from the schedule above follows. Also see Note 17 for additional disclosure of the "Other Governmental Liabilities."

FUTURE FUNDING REQUIREMENTS
(Thousands)

Other Governmental Liabilities	\$14,630,197
Annual Leave	1,486,239
Workman's Comp. and Medical Claims	769,120
Actuarial Liability for Federal Employees -	
Future Workman's Comp Benefits	1,313,935
Canceled Budget Authority (A/P)	22,437
Other	2
Total	<u><u>\$18,221,930</u></u>

Note 21. Taxes: Not applicable

Note 22. Other Revenue and Financing Sources:

	<u>1996</u>	<u>1995</u>
(Thousands)		
A. Other Revenues and Financing Sources:		
(1) Inventory Gains	\$457,944	\$443,976
(2) Investment Gains		
(3) Cost Contributions from Services		
(4) Unfunded Liability Payment from Treasury		
(5) Miscellaneous Reimbursements	471,448	467,395
(6) Other Miscellaneous Gains	212	807
(7) Benefit Program Revenue		
(8) Gain on Disposition of Assets		
(9) Donations		
Total	<u><u>\$929,604</u></u>	<u><u>\$912,178</u></u>

B. Other Information:

Other revenues and financing sources include miscellaneous receipts, donated revenue and inventory and other gains. Miscellaneous receipts, which are unavailable for agency use and are returned to Treasury, consist of license fees, fines, penalties and general fund receipts.

Note 23. Program or Operating Expenses:

(Thousands)	<u>1996</u>	<u>1995</u>
A. Operating Expenses by Object Classification:		
(1) Personal Services and Benefits	\$31,612,018	\$32,130,548
(2) Travel and Transportation	2,947,507	1,576,052
(3) Rental, Communication and Utilities	1,300,032	1,300,887
(4) Printing and Reproduction	86,056	50,472
(5) Contractual Services	15,518,590	13,661,243
(6) Supplies and Materials	4,442,067	4,001,708
(7) Equipment not Capitalized	476,632	485,688
(8) Grants, Subsidies and Contributions	123,212	90,692
(9) Insurance Claims and Indemnities	69,361	447
(10) Other	<u>1,213,528</u>	<u>1,178,241</u>
(11) Total Expenses by Object Class	<u>\$57,789,003</u>	<u>\$54,475,978</u>
	<u>1996</u>	<u>1995</u>
B. Operating Expenses by Program:		
(1) Revolving Fund	\$184,226	\$205,308
(2) General Fund	57,604,657	54,270,400
(3) Trust Fund	120	270
(4) Unallocated Expense	<u>0</u>	<u>0</u>
Totals	<u>\$57,789,003</u>	<u>\$54,475,978</u>

Note 24. Cost of Goods Sold:

	<u>1996</u>	<u>1995</u>
Public	\$627,185	\$495,222
Intragovernmental	<u>5,552,692</u>	<u>5,466,517</u>
Cost of Services Sold	<u>\$6,179,877</u>	<u>\$5,961,739</u>

Note 25. Other Expenses:

Inventory Loss/Adjustments from the CAWCF revolving fund accounted for the majority of this Statement of Operations (and Changes in Net Position) line item. Primary cause for the increase over the FY 95 expense line value was attributed to disposal of excess and obsolete inventory.

(Thousands)	<u>1996</u>	<u>1995</u>
A. Other Expenses:		
(1) Inventory Losses or Adjustments	\$733,513	\$355,257
(2) Other Miscellaneous Losses	<u>1,623</u>	<u>2,523</u>
Total	<u><u>\$735,136</u></u>	<u><u>\$357,780</u></u>

Note 26. Extraordinary Items: Not applicable to Army's FY 96 financial statements.

Note 27. Prior Period Adjustments: Statement of Federal Financial Accounting Standard Number Six "Property, Plant, and Equipment," requires that the offsetting charges against liabilities recognized for environmental cleanup costs are to be recorded as a prior period adjustment. Accordingly, Army has recorded prior period adjustments of \$13.7 Billion in FY 96 for estimated liabilities relating to cleanup costs.

Note 28. Non-Operating Changes - (Transfers and Donations):

A. Increases:	<u>1996</u>	<u>1995</u>
(1) Transfers-In	(2,811,700)	(325,650,346)
(2) Unexpended Appropriations	(504,258)	(3,225,403)
(3) Donations Received	0	0
(4) Other Increases	<u>773,655</u>	<u>33,123,545</u>
(5) Total Increases	(2,542,303)	(295,752,204)
 B. Decreases:	 <u>1996</u>	 <u>1995</u>
(1) Transfers-Out:	(12,586,930)	311,647,204
(2) Donations	0	0
(3) Other Decreases	<u>(4,275,253)</u>	<u>(29,466,544)</u>
(4) Total Decreases	(16,862,183)	282,180,660
 C. Net Non-Operating Changes (Transfers):	 <u><u>(19,404,486)</u></u>	 <u><u>(13,571,544)</u></u>

Note 29. Intrafund Eliminations:

The following schedules show the values of the transactions that were required to be eliminated from the Statement of Financial Position and Statement of Operations (and Changes in Net Position) since they represented activity between Army appropriations or activity with other DoD entities.

Schedule A. Sales within the General Fund activity by transactions and according to general ledger amounts for accounts receivable, revenues, unearned revenues, and collections. It is presumed that an equal amount of accounts payable, expenses, advances and disbursements have been entered on the accounting records of the purchasing activity.

(Thousands)

Selling Activity:

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
Operation and Maintenance	\$404,572	\$2,655,349	N/A	\$2,622,795
Procurement	\$0	\$21,122	N/A	\$23,042
Research and Development	\$64,497	\$795,588	N/A	\$812,959
Military Construction	\$99,761	\$1,011,860	N/A	\$988,366
Other funds and accounts	\$162,002	\$787,088	N/A	\$642,949
Unearned Revenue	<u>\$0</u>	<u>\$0</u>	<u>\$818,369</u>	<u>\$0</u>
Total	<u><u>\$730,832</u></u>	<u><u>\$5,271,007</u></u>	<u><u>\$818,369</u></u>	<u><u>\$5,090,111</u></u>

Customer Activity:

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
Operation and Maintenance	\$404,572	\$2,655,349	N/A	\$2,622,795
Procurement	\$0	\$21,122	N/A	\$23,042
Research and Development	\$64,497	\$795,588	N/A	\$812,959
Military Construction	\$99,761	\$1,011,860	N/A	\$988,366
Other funds and accounts	\$162,002	\$787,088	N/A	\$642,949
Advances	<u>\$0</u>	<u>\$0</u>	<u>\$818,369</u>	<u>\$0</u>
Total	<u><u>\$730,832</u></u>	<u><u>\$5,271,007</u></u>	<u><u>\$818,369</u></u>	<u><u>\$5,090,111</u></u>

Note 29. Intrafund Eliminations (Con't):**Schedule B.** Not applicable**Schedule C.** Not applicable

Schedule D. Sales or services between the Army and other DoD reporting entities by transactions and according to general ledger amounts for accounts receivable, revenues, unearned revenues, and collections. It is presumed that an equal amount of accounts payable, expenses, advances and disbursements have been entered on the accounting records of the purchasing activity

(Thousands)

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts Receivable	Revenue	Unearned Revenue	Collections
Department of the Army	\$475,326	\$4,244,715	N/A	\$4,226,035
Unearned Revenue	\$0	\$0	\$605,946	\$0
Total	<u>\$475,326</u>	<u>\$4,244,715</u>	<u>\$605,946</u>	<u>\$4,226,035</u>
Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts Payable	Expenses	Advances	Disbursements
Department of the Army	\$0	\$0	N/A	\$0
Department of the Navy	\$55,537	\$520,681	N/A	\$504,167
Department of the Air Force	\$100,374	\$775,029	N/A	\$749,661
Defense Business Operations Fund	\$0	\$0	N/A	\$0
DoD Military Retirement Trust Fund	\$0	\$0	N/A	\$0
National Defense Stockpile	\$0	\$0	N/A	\$0
U.S. Army Corps of Engineers	\$0	\$0	N/A	\$0
Defense Security Assistance Agency	\$0	\$0	N/A	\$0
Other Defense Organizations	\$319,415	\$2,949,005	N/A	\$2,972,207
Advances	\$0	\$0	\$605,946	\$0
Total	<u>\$475,326</u>	<u>\$4,244,715</u>	<u>\$605,946</u>	<u>\$4,226,035</u>

Schedule E. The following schedule shows the values of sales and services between the Department of Army and other U.S. Government entities. This information is needed by the Department of Treasury to prepare U.S. Government-wide consolidated financial statements. It is presumed that an equal amount of accounts payable, expenses, advances, and disbursements have been entered on the accounting records of the purchasing entity.

(Thousands)				
Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
Department of the Army	\$113,618	\$218,144	\$16,716	\$169,394
Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
Dept of Commerce	\$1,899	\$270	\$0	\$410
Dept of Interior	655	1,386	0	1,626
Dept of Justice	9,283	18,291	0	15,485
Dept of Labor	9	16	0	26
Dept of Energy	450	2,142	0	2,036
Dept of State	1,961	4,515	0	19,072
Dept of Treasury	2,568	12,001	0	12,364
Veterans Administration	1,509	4,473	0	2,503
Republic of Panama	43	213	0	185
Federal Emergency Mgmt	4,451	927	0	286
General Services Admin	41,414	64,924	0	31,740
Environmental Protection	862	1,692	0	1,380
Dept of Transportation	8,599	14,113	0	10,574
Dept of Health Services	4,640	6,732	0	3,438
National Aeronautics	14,289	37,931	0	30,189
Dept of Housing	6	4	0	7
Legislative Branch	0	15	0	15
Office of the President	402	9,987	0	6,597
Dept of Agriculture	457	941	0	1,163
Energy Research	107	12	0	519
Selective Service System	4,566	6,188	0	3,634
Nuclear Regulatory Comm	124	474	0	386
All other Federal agencies	15,324	30,897	0	25,759
Advances	0	0	16,716	0
Total	<u>\$113,618</u>	<u>\$218,144</u>	<u>\$16,716</u>	<u>\$169,394</u>

Note 30. Contingencies:

The Army canceled all merged year and expiring account appropriations. The Army may still be responsible for an estimated \$417.5 million in obligations that relate to the canceled appropriations. The Army is subject to various asserted claims for over \$100 million. These claims are in various phases ranging from investigation to appeal. While no opinion has been expressed regarding specific claims' likely outcome or possible associated loss, experience indicates that many such claims are settled for less than claimed, dismissed altogether, or the possibility of the contingency materializing is remote. As of September 30, 1996 Army has approximately \$3.3 Billion in claims that are considered

to be only remotely possible of resulting in a loss. Additionally, Army is currently in the process of litigating cases having a remote chance of resulting in cumulative estimated losses of \$910 Million.

Note 31. Other Disclosures:

A. Reportable Anti-Deficiency Violations:

The Army had 16 potential Antideficiency Act (ADA) violations under investigation as of 30 September, 1996. Of the completed cases during FY 96, only one was determined to be a violation of the Act. The single case totaling \$100,269,900 resulted when restrictions of section 101 of the Military Construction Act of 1994 (Public Law 103-110) were violated. The restriction requiring prior approval by the Secretary of Defense for the expenditure of military construction funds for certain cost-plus-fixed-fees contracts has since been removed from the FY 96 Military Construction Appropriations Act.

B. Problem Disbursements:

The Army transacts a significant portion of its business utilizing a centralized clearance system at DFAS-IN which allows an installation to make disbursements citing another installation's funds. The transactions include intra-service transactions by others, interfund billings and cross-disbursements by others. Problem disbursements represent disbursements of Army funds that have been reported by a Treasury Disbursing Station Symbol Number (DSSN) to Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursement.

Problem disbursements represent a significant financial management concern because: (1) the accuracy of accounting reports is affected; (2) available funding picture is distorted; and (3) the research and resolution process can be very labor intensive. Initiatives such as prevalidation of payments, are well underway to reduce or eliminate problem disbursements. In the case of prevalidation efforts, entitlement personnel and accountants are now required to jointly ensure that an obligation of funds sufficient to cover the amount of the proposed disbursement has been recorded in the accounting records. This validation must be done for all payments exceeding a specified threshold. Eventually, all payments will be prevalidated prior to the disbursement of funds.

The following table shows the unmatched transactions and Negative Unliquidated Obligations (NULO's) as of September 30, 1996. FY 95 values for unmatched transactions can't be used for comparison purposes due to changes in reporting requirements and problem disbursement definitions implemented during FY 96. However, while FY 95 NULO's shown below do include Defense Business Operations Fund transactions, comparisons can still be made between both years. FY 96 DBOF transactions were equal to 7% of the total NULO's reported by Army. Using the same relationship found in the FY 96 reported values of NULO's (Army DBOF to total Army NULO's), the FY 95 NULO figure for Army non-DBOF transactions could be stated as 93% of \$147.7 million, or approximately \$137.4 million. FY 96 NULO's declined by 34% when compared to the computed non-DBOF FY 95 NULO balance.

(\$'s in Thousands)

	<u>FY 96</u>	<u>FY 95</u>
Unmatched	118,910	N/A
NULO's	90,557	147,700

C. Other Entity Assets:

This account is made up of military property in the hands of contractors. This estimate is based on the data reported by contractors for military peculiar property that may include both end items and integral components of military weapons system. This value was reported as \$6.8 Billion in the FY 94 CFO Statements but was not available for inclusion in the FY 95 CFO Statements.

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